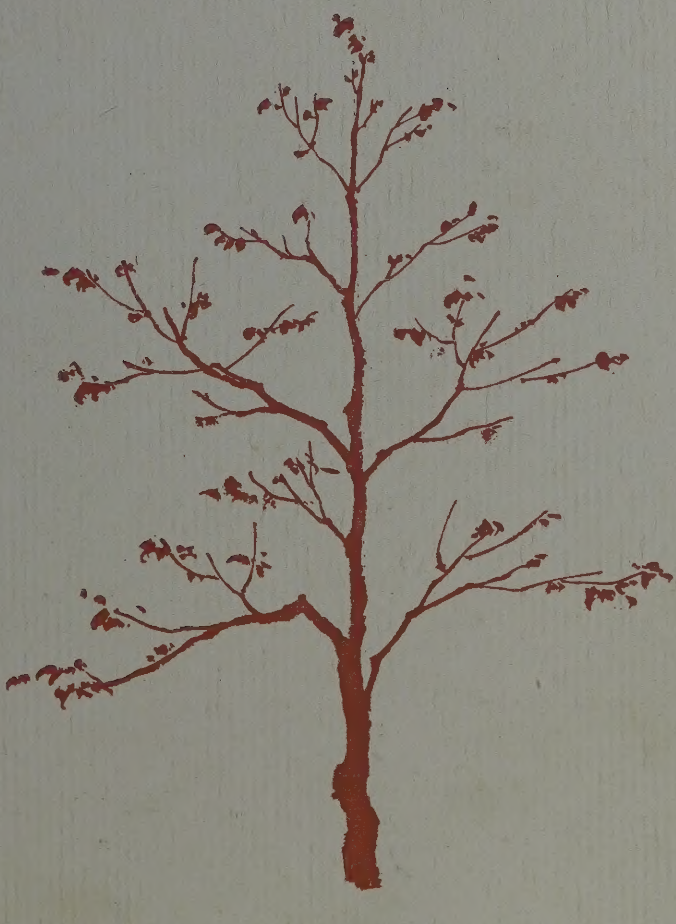
Arbor Capital Resources Inc.

annual report 1976



Directors' report

To our Shareholders

FINANCIAL RESULTS

For the fiscal year ended October 31, 1976, net earnings before extraordinary items were $160,994 (5 cents per share) compared with $79,917 (3 cents per share) for the preceding fiscal year.

Expanded sales by the Memorial Gardens Division and increased yields from the perpetual care and the pre-need funds were the major reasons for this improvement. Earnings from the Thor Division were below expectation due to weak demand in the hotel, motel and institutional sectors – traditionally Thor's major markets for equipment sales – and to provision for substantial reduction in the value of an inventory of outmoded equipment. In addition, a minor, terminal loss was experienced upon the sale of the one coin laundry store operated by Thor.

There was an aggregate net loss from extraordinary items of $2,170,077 (70 cents per share). This result is attributable mainly to the elimination of goodwill formerly carried as an asset at its cost of $2,149,531. Your directors decided that this item should be written off in 1976 to present the company's financial position conservatively and free from the distortions which could arise from amortizing the asset over an arbitrary selected period. In the opinion of your directors, this treatment should have no detrimental effect on estimates of Arbor's value.

Over the years, we have noted that the company's strategy is evaluated regularly to ensure that resources are assigned to areas of highest potential. A recent review concluded that our resources, particularly those of management, should now be concentrated on expansion of the Memorial Gardens Division and the closely associated Landscaping Division. Accordingly, it was decided to dispose of the Thor Division and after several months of search and negotiation an agreement was made to sell this division as of March 25, 1977. A provision of $275,000 was made to reflect the anticipated book loss, net of applicable deferred income taxes, on this transaction.

Partially offsetting extraordinary losses was a gain of $200,934 on the purchase by Arbor of a majority of the promissory notes issued in 1972 upon the acquisition of Thor Industries Incorporated. This arrangement, which was financed by a mid-term bank loan, has strengthened the company's balance sheet without prejudicing cash flow.

Several programs to improve cash management are in effect and these contributed to a modest but noticeable strengthening in the company's financial position during 1976. Capital expenditures on equipment and structures for cemetery operations were at about the same level as in 1975. There were additional commitments of capital for snow removal equipment in the Landscaping Division and for the construction of a three-mile pipe line to bring water to Mountain View Memorial Gardens in Calgary.

HIGHLIGHTS

MEMORIAL GARDENS DIVISION

Sales increased by 19% from the preceding year and the distribution of sales by product was close to forecast levels. Of no less importance, the quality of sales as measured by customer cancellations and the size of deposits continued to improve. Much of the credit for this strengthened performance is due to organizational changes initiated in 1975 with the objective of freeing marketing management from responsibility for cemetery operations.

Our first set of granite garden crypts, at Glendale Memorial Gardens in Toronto, secured immediate customer acceptance. The garden crypt program will be expanded nationally and commitments have been made already for the construction of additional units at Glendale as well as at Montreal and Hamilton.

Parc du Souvenir, a 40 acre cemetery in Laval, Quebec, was acquired just after the end of the fiscal year. This addition strengthens our ability to provide service to all parts of the Montreal region.

Two years ago we began to expand the capital base of the pre-need funds through periodic purchases of discount bonds; in effect, immediate income would be foregone for the sake of future capital gains. So far, the tendency of discount bonds to impair income has been more than offset by other strategies with the result that the overall gross yield from pre-need funds has risen from 6.8% in 1974 to 8.3% in 1976. The yield from perpetual care funds also has grown but not to the same extent. The perpetual care funds, in contrast to the pre-need funds, are small, fragmented and thus difficult to manage efficiently.

Last year, our report to shareholders ventured the hope that Canada's anti-inflation program might

stimulate review of the generally outmoded arrangements under which prices in the cemetery industry are controlled. Whether or not that program can claim the credit, some provincial regulatory authorities have in recent months shown a new willingness to consider the long-term implications of pricing decisions. These are encouraging signs but in some regions we are still confronted by archaic practices which reduce efficiency without yielding any commensurate benefit to the community.

LANDSCAPING

Our Memorial Gardens Division, which maintains more than 2,000 acres of lawns and gardens across Canada, is one of the larger grounds management organizations in the private sector. Arbor's Landscaping Division was created during 1976 to utilize more fully our experience of more than 25 years as well as extensive resources of machinery and equipment.

The Landscaping Division commenced its first contract in the summer of 1976 and completed approximately $200,000 of work during the balance of the fiscal year. Your directors are satisfied with the results of our early experience and plan to expand landscaping and allied operations.

OUTLOOK

The unsettling and often contradictory themes which now characterize Canada's social and economic conditions make it tempting to live for the day and shy away from any attempt at systematic planning for the long term. But this option is not available to Arbor as so many of its decisions demand reference to the distant future. Our assessment of this future is generally favourable and we believe that Arbor is now positioned better than before to cope with the instabilities to come. It is, we think, appropriate to confirm that the current debate on the structure of Canada has not caused us to modify our plans for continued expansion by investment in all regions of Canada.

ACKNOWLEDGEMENTS

Arbor's operations are dispersed geographically and most of our services are called for on short notice. It follows that, if we are to be successful, there must be at each location, whether for cemetery operations, sales, landscaping or administration, men and women of sound and independent judgment. Arbor is fortunate in having a large number of such people and to them your directors express thanks for all that was accomplished in 1976.

Your directors record their thanks also to Mr. Murray M. Sinclair, Arbor's first chairman, who resigned from the board shortly after the end of the fiscal year. Mr. Sinclair was prominent in the establishment of Arbor and we will miss his imagination and wit. Mr. Daniel J. Scanlan, Vice-President of the Memorial Gardens Division, was elected chairman in November 1976, and your directors extend to him every good wish.

On behalf of the Board of Directors

Philip L. Wilson
President

Toronto, Ontario
February 18, 1977

Consolidated statement of earnings

	Year ended October 31 1976	1975
SALES	$11,490,626	$ 9,311,416
INVESTMENT INCOME		
Pre-need funds	845,949	823,141
Perpetual care funds	696,543	629,531
	13,033,118	10,764,088
OPERATING COSTS AND OTHER EXPENSES	12,694,937	10,697,319
	338,181	66,769
NET GAIN (LOSS) ON INVESTMENTS (note 3)	(28,187)	29,748
	309,994	96,517
PROVISION FOR INCOME TAXES		
Current	23,000	22,600
Deferred	126,000	(6,000)
	149,000	16,600
NET EARNINGS FOR THE YEAR BEFORE EXTRAORDINARY ITEMS	160,994	79,917
EXTRAORDINARY ITEMS		
Gain on sale of land	—	29,518
Loss on sale of mining equipment	(29,280)	(61,693)
Reduction of income taxes on application of prior years' losses	82,800	—
Provision for loss on advances to mining venture	—	(493,415)
Adjustment of provision for future delivery	—	244,689
Gain on repurchase of notes payable (note 9)	200,934	—
Write-off of goodwill (note 10)	(2,149,531)	—
Provision for loss on disposal of assets (note 11)	(275,000)	—
	(2,170,077)	(280,901)
NET LOSS FOR THE YEAR	$(2,009,083)	$ (200,984)
EARNINGS PER SHARE		
Net earnings before extraordinary items	$ 0.05	$ 0.03
NET LOSS	$ (0.65)	$ (0.07)

Consolidated statement of changes in financial position

	Year ended October 31 1976	1975
SOURCE OF CASH		
Net earnings for the year before extraordinary items	$ 160,994	$ 79,917
Items not affecting funds		
Depreciation and amortization	467,212	393,592
Increase in provision for future delivery	1,206,124	869,947
Deferred income taxes	126,000	106,474
Provided from operations	1,960,330	1,449,930
Sale of land	—	33,846
Increase in perpetual care and pre-need funds	144,106	77,996
Increase in bank indebtedness	—	562,920
Increase in deferred revenue	121,606	31,539
Gain on repurchase of notes payable	200,934	—
Proceeds on disposal of fixed assets	76,887	60,360
Reduction of income taxes on application of prior years' losses	82,800	—
	2,586,663	2,216,591
USE OF CASH		
Increase in instalment accounts receivable	781,191	805,233
Development costs and additions to cemetery land	35,197	25,238
Purchase of fixed assets	462,316	454,781
Increase in pre-need funds	233,024	450,418
Decrease in bank indebtedness	465,299	—
Decrease in long-term debt	332,382	77,266
Advances to mining venture	—	493,416
Other	242,099	76,776
	2,551,508	2,383,128
INCREASE (DECREASE) IN CASH	35,155	(166,537)
CASH – BEGINNING OF YEAR	23,978	190,515
CASH – END OF YEAR	$ 59,133	$ 23,978

Consolidated balance sheet

	As at October 31 1976	1975
ASSETS		
Cash	$ 59,133	$ 23,978
Accounts receivable (note 2)	662,933	689,447
Inventories – at the lower of cost or net realizable value	535,182	542,673
Prepaid and deferred expenses	44,444	70,996
Instalment accounts receivable (note 2)	8,979,115	8,197,924
Advances to mining venture less provision for loss	1	1
Pre-need funds (note 3)	10,090,217	9,857,193
Cemetery land (note 1)	3,208,642	3,297,623
Fixed assets – at cost, less accumulated depreciation of $1,716,384 (1975 – $1,556,786) (notes 1 and 11)	1,210,680	1,412,855
Leasehold interests – at cost, less accumulated amortization of $212,669 (1975 – $173,970) (notes 1 and 11)	305,037	599,671
Goodwill (note 10)	—	2,149,531
	$25,095,384	$26,841,892

PERPETUAL (

Investments held by trustees – at cost	$ 9,263,546	$ 8,793,444

Signed on behalf of the Board

D. J. Scanlan, *Director*

P. L. Wilson, *Director*

	As at October 31 1976	1975
LIABILITIES		
Bank indebtedness (note 2)	$ 172,621	$ 637,920
Accounts payable and accrued liabilities	1,143,243	1,348,676
Income taxes payable	9,072	1,219
Pre-need funds	317,204	314,168
Perpetual care funds	848,556	707,486
Provision for future delivery (note 1)	13,356,879	12,150,755
Deferred revenue	1,051,916	930,310
Long-term debt (note 5)	805,216	1,137,598
Deferred income taxes	3,473,235	3,687,235
	$21,177,942	$20,915,367
SHAREHOLDERS' EQUITY		
Share capital		
Authorized: 10,000,000 shares without par value		
Issued and fully paid: 3,086,897 shares without par value (note 6)	1,075,474	1,075,474
Retained earnings	2,841,968	4,851,051
	$ 3,917,442	$ 5,926,525
	$25,095,384	$26,841,892

FUNDS (note 4)

	1976	1975
Perpetual care fund balances	$ 9,263,546	$ 8,793,444

Consolidated statement of retained earnings

	As at October 31 1976	1975
RETAINED EARNINGS – BEGINNING OF YEAR	$ 4,851,051	$ 5,145,525
Adjustment of prior years' service charge income	—	(93,490)
As restated	4,851,051	5,052,035
Net loss for the year	(2,009,083)	(200,984)
RETAINED EARNINGS – END OF YEAR	$ 2,841,968	$ 4,851,051

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Arbor Capital Resources Inc. as at October 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Toronto, Ontario
February 10, 1977

Chartered Accountants

Notes to consolidated financial statements

FOR THE YEAR ENDED OCTOBER 31, 1976

1. ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The accounts of the company and all of its subsidiaries have been included in the consolidated financial statements.

(b) INSTALMENT ACCOUNTS RECEIVABLE

The company follows the practice of recording the full profits on instalment contracts at the time of sale. The instalment accounts receivable are payable over periods of time which average approximately five years. Provision is made for cancellation of these contracts.

(c) CEMETERY LAND

The company charges to cemetery land the cost of raw land and development. As lots are sold, the cost of the developed lots is charged to operations. In 1976 this cost amounted to $124,177 (1975 – $97,359).

(d) DEPRECIATION AND AMORTIZATION

Depreciation of fixed assets and amortization of leasehold improvements are provided for in the accounts at rates allowed for income tax purposes.

Leasehold interests are amortized over a period of twenty years on a straight-line basis.

Depreciation and amortization included in operating costs and other expenses amount to $343,035 (1975 – $296,233).

(e) PROVISION FOR FUTURE DELIVERY

The provision for future delivery consists of the following:

(i) Merchandise and services sold on a pre-need basis:
Under such contracts, the average period from the balance sheet date to time of delivery is approximately seventeen years. The provision for future delivery, which amounts to $12,327,272 ($11,712,317 – 1975) for this merchandise, is based on a calculation made by a firm of consulting actuaries and represents the cost of the merchandise and services, allowing for price increases to the estimated time of delivery, discounted at an appropriate interest rate.

(ii) Merchandise sold on a storage basis:
Under such contracts, the company acquires the merchandise, on average, three years from the balance sheet date and stores such merchandise until the time of need. The provision for future delivery includes $1,029,607 ($438,438 – 1975) related to this merchandise.

(f) DEFERRED REVENUE

Service charges are applied on the uncollected balances of contracts for the sale of lots and merchandise and are payable over periods averaging approximately five years. The company follows the practice of recognizing service charge revenue over the life of the sales contract by the sum of the digits method.

(g) INCOME TAXES

Deferred income taxes arise principally from the following:

(i) Claiming a reserve for undelivered merchandise and services.

(ii) Claiming development cost of cemetery land for income tax purposes as incurred, whereas such costs have been deferred in the accounts.

(iii) Claiming a reserve for income tax purposes against instalment accounts receivable.

The company and certain subsidiaries have losses available for application against future years' income.

2. BANK INDEBTEDNESS

Accounts receivable and instalment accounts receivable have been pledged as security for the bank indebtedness.

Notes

3. PRE-NEED FUNDS

The company has set aside the following amounts to meet statutory and contractual obligations to pay for merchandise and services to be delivered in the future:

	October 31 1976	1975
Statutory	$ 8,213,811	$ 7,908,235
Contractual	2,407,843	2,460,260
	10,621,654	10,368,495
Accumulated net losses on sales of investments	(426,007)	(415,172)
Total pre-need funds – at cost	$10,195,647	$ 9,953,323
These funds are made up as follows:		
Cash and short-term deposits	$ 851,174	$ 1,429,057
Bonds (quoted market value $5,774,458; 1975 – $3,995,941)	5,847,780	4,274,008
Stocks (quoted market value $443,681; 1975 – $617,169)	681,397	999,761
Mortgages	2,815,296	3,250,497
Total funds set aside – at cost	10,195,647	9,953,323
Provision for losses	(105,430)	(96,130)
Total pre-need funds – at cost less provision	$10,090,217	$ 9,857,193

The investments included in the funds are valued at cost, less a provision for losses in respect of individual investments where a decline in market value below cost has occurred and appears to be permanent. The net loss resulting from profits and losses on sales of investments and from the change in the provision for losses for the year ended October 31, 1976 was $28,187 (1975 – net gain $29,748).

Pre-need funds become available when the merchandise and services have been provided.

4. PERPETUAL CARE FUNDS

The company has the right to the income from these funds for the care and maintenance of cemetery properties but the assets of the funds are not assets of the company.

5. LONG-TERM DEBT

	1976	1975
Bank loan at bank prime rate plus 2¼% payable in monthly instalments of principal of $6,000 from December 1976 to August 1980 inclusive and the balance of $8,000 in September 1980. (note 2)	$ 350,000	$ —
6% notes payable in annual instalments of $15,000 (1975 – $50,000) on December 31, 1976 to 1981 inclusive and the balance of $165,000 (1975 – $550,000) on December 31, 1982 (note 9)	255,000	900,000
9% mortgage payable in annual instalments of $6,000 through 1978 and one instalment of $118,296 in 1979	130,296	136,296
9¼% mortgage payable in monthly instalments of $200 (principal and interest) to 1978 and one instalment of $7,169	9,920	11,302
Note payable due October 31, 1977 with interest at bank prime rate plus 2½%	50,000	90,000
6% note payable due December 31, 1977	10,000	—
	$ 805,216	$ 1,137,598
Amounts payable within one year	$ 138,528	$ 147,386
Interest on long-term debt included in operating costs and other expenses	$ 46,044	$ 80,115

6. SHARE OPTIONS

Options have been granted to certain officers to purchase 140,000 shares at $1.00 per share. These options are exercisable at various dates and expire on December 31, 1979.

Notes

7. ANTI-INFLATION ACT

The company is subject to restraint in the payment of corporate dividends under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

8. LOAN TO CORPORATE OFFICER

In October 1976, the company made an interest-bearing loan of $80,000 to one of its officers. The loan was repaid in full, including interest, prior to October 31, 1976.

9. GAIN ON REPURCHASE OF NOTES PAYABLE

The company purchased $595,000 of 6% notes payable at a discount. The resulting gain, after provision for applicable deferred income taxes of $63,800, has been shown as an extraordinary item.

10. WRITE-OFF OF GOODWILL

During the year the directors considered the item of goodwill of $2,149,531 previously shown at cost as an asset on the consolidated balance sheet and decided that it should not be reflected as an asset. Accordingly it has been charged against 1976 earnings as an extraordinary item.

11. PROVISION FOR LOSS ON DISPOSAL OF ASSETS

In February 1977, the company accepted an offer to purchase the net assets of the Thor Laundry Systems Division. At October 31, 1976, the assets of the division were written down to reflect the selling price and the resulting provision for loss of $615,000, net of applicable deferred income taxes of approximately $340,000, has been charged against 1976 earnings as an extraordinary item.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable by the company and its subsidiaries to its directors and senior officers as defined by The Business Corporations Act was $297,868 for the year ended October 31, 1976 (1975 – $200,099).

DIRECTORS

Frank Anthony*; *Real estate investor*

D. G. C. Menzel, Q.C.*; *Partner of Campbell, Godfrey & Lewtas and Director of other Canadian companies*

Daniel J. Scanlan; *Chairman of Arbor Capital Resources Inc.*

The Right Honourable Lord Shaughnessy*; *Vice-President and Secretary of Canada Northwest Land Limited and a Trustee of The Last Post Fund Inc.*

Philip L. Wilson; *President and Chief Executive Officer of Arbor Capital Resources Inc.*

*Member, Audit Committee

OFFICERS AND SENIOR MANAGEMENT

CORPORATE

Daniel J. Scanlan, *Chairman*
Philip L. Wilson, *President*
H. W. Suters, *Executive Vice-President*
Barry G. Jones, C.A., *Vice-President Finance and Treasurer*
John W. Sabine, *Secretary*

MEMORIAL GARDENS DIVISION

Daniel J. Scanlan, *Vice-President*
W. Keith Forbes, *Manager of Purchasing*
Bernard E. Francisco, *Controller*
Joseph E. Johnson, *Director of Operations*
Patrick Monkman, *Manager of Properties*
John V. Palmer, *Director of Marketing*

ARBOR LANDSCAPING DIVISION

Donald R. Belyea, *Manager*

THOR DIVISION

H. W. Suters, *Managing Director*
Charles M. Hughes, *Controller*
William Nicol, *Operations Manager*